

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Hillsdale	County Hillsdale
Audit Date 6/30/04	Opinion Date 8/31/04	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Willis & Jurasek, P.C.			
Street Address 2545 Spring Arbor Road	City Jackson	State MI	ZIP 49203
Accountant Signature <i>Willis & Jurasek, P.C.</i>		Date	

City of Hillsdale, Michigan

Financial Statements
And Independent Auditors' Report

Year Ended June 30, 2004

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Independent Auditors' Report

The Honorable Mayor and
Members of the City Council
City of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hillsdale, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The Honorable Mayor and
Members of the City Council

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hillsdale's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The current year supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information includes for comparative purposes, financial statements as of June 30, 2003, which were audited by other auditors whose report dated October 28, 2003, expressed an unqualified opinion on those statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in cursive script that reads "Willis & Jurasek, P.C.".

Willis & Jurasek, P.C.

August 31, 2004

**Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Honorable Mayor and Members
of the City Council
City of Hillsdale, Michigan

We have audited the basic financial statements of the City of Hillsdale, Michigan as of and for the year ended June 30, 2004, and have issued our report thereon dated August 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Hillsdale, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

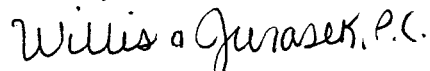
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hillsdale, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Hillsdale, Michigan in a separate letter dated August 31, 2004.

This report is intended solely for the information and use of the audit committee, management, the City Council, others within the organization, State agencies, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Willis & Jurasek, P.C.

August 31, 2004

Management's Discussion and Analysis

As management of the *City of Hillsdale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$48,252,744 (*net assets*). Of this amount, \$9,399,216 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$31,361.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,999,613, an increase of \$144,278 in comparison with the prior year. Approximately sixty-nine percent (69.92%) of this total amount, or \$1,398,206, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$573,885, or about fifteen percent (14.49%) of total general fund expenditures.
- The City's total bonded debt decreased by \$360,000 during the current fiscal year. The City was notified in April 2004 that \$280,000 of the \$1 Million Community Development Block Grant funds received in 1998 would have to be repaid. The grant was used to expand the City's Industrial Park and job credits were given for creation and retention of low and moderate income positions created by this project. Originally it was the Michigan Economic Development Corporation's contention that we did not meet the job credit requirements of the agreement and would have to repay the entire \$1 Million. However, the City was able to obtain the job creation documentation that satisfied the requirements that MEDC would forgive everything except the money used to purchase property due to CDBG national policy objective requirements. Thus, the net increase in the City's Governmental activities long-term debt of \$132,000.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public services, parks and recreation, community development, and long-term debt. The business-type activities are electric, sewer, water, and transportation.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also two legally separate authorities – the Tax Increment Finance Authority and the Economic Development Corporation – for which the City is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 1-3 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains seventeen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital improvement funds, each of which are considered to be major funds. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 4-7 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, sanitary sewer, water distribution, and public transportation operations. *Internal service funds* account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) and accumulate and allocate costs internally among the City's various functions. Because this service predominantly benefits governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for three major enterprise funds; electric, water, and sewer, and one non-major fund, Dial-A-Ride.

The basic proprietary fund financial statements can be found on pages 8-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 12-13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other information. This includes combining and individual fund financial statements and schedules which can be found on pages 30-53 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Hillsdale, assets exceeded liabilities by \$48,252,744 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets, about seventy-five percent (75%), reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets	Governmental		Business-type		Totals		Total
	Activities		Activities				Percent
	2003	2004	2003	2004	2003	2004	Change
Current and Other Assets	\$2,656,561	\$2,941,125	\$11,127,089	\$10,275,428	\$13,783,650	\$13,216,553	-4.11%
Capital Assets	\$20,638,727	\$20,134,026	\$22,232,199	\$22,856,083	\$42,870,926	\$42,990,109	0.28%
Total Assets	\$23,295,288	\$23,075,151	\$33,359,288	\$33,131,511	\$56,654,576	\$56,206,662	-0.79%
Long-term Liabilities Outstanding	\$1,312,715	\$1,376,895	\$5,236,942	\$4,869,091	\$6,549,657	\$6,245,986	4.64%
Other Liabilities	\$175,146	\$307,187	\$1,708,389	\$1,400,745	\$1,883,535	\$1,707,932	9.32%
Total Liabilities	\$1,487,861	\$1,684,082	\$6,945,331	\$6,269,836	\$8,433,192	\$7,953,918	5.67%
Net Assets:							
Invested In Capital Assets Net of Related Debt	\$19,423,727	\$18,787,026	\$16,697,199	\$17,681,086	\$36,120,926	\$36,468,112	0.96%
Restricted	\$835,714	\$1,223,858	\$736,566	\$1,161,558	\$1,572,280	\$2,385,416	51.72%
Unrestricted	\$1,547,986	\$1,380,185	\$8,980,192	\$8,019,031	\$10,528,178	\$9,399,216	10.72%
Total Net Assets	\$21,807,427	\$21,391,069	\$26,413,957	\$26,861,675	\$48,221,384	\$48,252,744	0.07%

An additional portion of the City's net assets (\$2,385,416) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, \$9,399,216, may be used to meet the government's ongoing obligations to citizens and creditors.

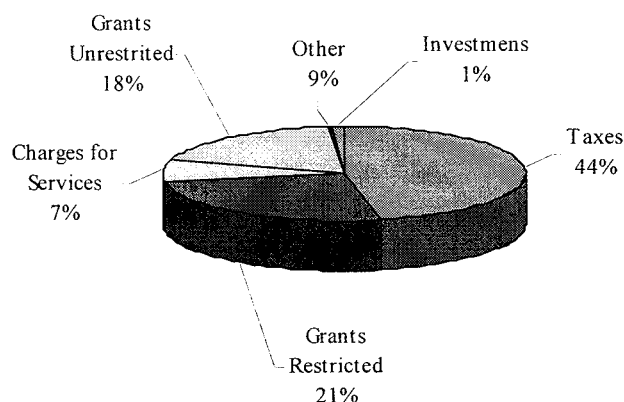
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

During the current fiscal year the government's net assets increased by \$31,361. The increase reflects the degree to which ongoing revenues exceed ongoing expenses in the business-type activities. The governmental activities net assets decreased \$416,358; while the business-type activities increased \$447,719.

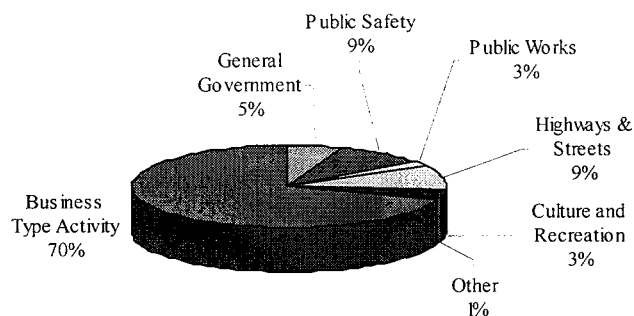
City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2003	2004	2003	2004	2003	2004	
Revenues:							
Program Revenues:							
Charges for Services	\$236,905	\$361,889	\$12,836,156	\$12,439,289	\$13,073,061	\$12,801,178	-2.08%
Operating Grants & Contributions	1,326,837	1,242,098	191,364	315,255	1,518,201	1,557,353	2.58%
Capital Grants & Contributions	100,607	89,522	0	0	100,607	89,522	-11.02%
Total Revenues	\$1,664,349	\$1,693,509	\$13,027,520	\$12,754,544	\$14,691,869	\$14,448,053	-1.66%
Expenses:							
General Government	1,003,412	994,003			1,003,412	994,003	-0.94%
Public Safety	1,612,363	1,655,436			1,612,363	1,655,436	2.67%
Public Services	432,894	458,930			432,894	458,930	6.01%
Highways & Streets	1,643,873	1,652,853			1,643,873	1,652,853	0.55%
Health (Building Inspect/Assessing)	151,543	148,811			151,543	148,811	-1.80%
Recreation & Culture	575,622	606,080			575,622	606,080	5.29%
Interest on Long-term Debt	22,234	26,646			22,234	26,646	19.84%
Unallocated Depreciation	35,500	36,368			35,500	36,368	2.45%
Electric			9,326,920	10,214,235	9,326,920	10,214,235	9.51%
Water			974,464.00	961,151	974,464	961,151	-1.37%
Sewer			905,823	1,019,765	905,823	1,019,765	12.58%
Transportation			378,005	421,872	378,005	421,872	11.60%
Total Expenses	\$5,477,441	\$5,579,127	\$11,585,212	\$12,617,023	17,062,653	18,196,150	6.64%
Increase (Decrease) in							
Net assets Before Transfers	(\$3,813,092)	(\$3,885,618)	\$1,442,308	\$137,521	(2,370,784)	(3,748,097)	-58.10%
General Revenues:							
Taxes	2,350,406	2,417,577			2,350,406	2,417,577	2.86%
Grants & Contributions Not Restricted							
To Specific Programs	1,015,785	985,578			1,015,785	985,578	-2.97%
Unrestricted Investment Earnings	69,064	57,926	162,638	49,284	231,702	107,210	-53.73%
Other Revenues	486,708	464,727	79,888	140,129	566,596	604,856	6.75%
Prior Year Adjustment CDBG		(280,000)				(280,000)	-100.00%
Contributions to Permanent Funds	8,623				8,623	0	-100.00%
Loss on sale of Land		(105,137)				(105,137)	-100.00%
Transfers - Internal Activity	(85,960)	(71,411)	85,960	120,785	0	49,374	100.00%
Total General Revenues	3,844,626	3,469,260	328,486	310,198	4,173,112	3,779,548	-9.43%
Net Income	\$31,534	(\$416,358)	\$1,770,794	\$447,719	425,015	31,361	337.35%
Net Assets 7-01-03	\$21,775,893	\$21,807,427	\$24,643,163	\$26,413,956	46,419,056	48,221,383	3.88%
Net Assets 6-30-04	\$21,807,427	\$21,391,069	\$26,413,957	\$26,861,675	\$48,221,334	\$48,252,744	0.07%

Source of Revenue for Fiscal Yr 2004



Functional Expenses for Fiscal Yr 2004



The City's total revenues (excluding special items) decreased about two percent (1.66%) to \$14,448,053. Approximately half or forty-four percent (44%), of all governmental activity revenue comes from taxes. Thirty-nine percent (39%) comes from federal, state, and local grant sources. Only seven percent (7%) of the governmental activities revenues comes from charges for services as apposed to ninety-five (95%) for business-type activities (Board of Public Utilities and Dial-A-Ride).

On the expense side, the largest portion of the expenditures is for the business type activities (BPU and DART). General government amounts to only five percent (5%) of total costs of both business and governmental activities; public safety and streets and highways are both at nine percent (9%) each, and recreation and culture and public works are both at three percent (3%).

Governmental activities. Governmental activities suffered a net loss of \$416,358 this year. Key elements of this loss are as follows:

- The prior year adjustment for the CDBG grant repayment amount of \$280,000 accounts for sixty-seven percent (67%) of the reported loss.
- Inman Park ownership was transferred to the Hillsdale Community Schools for a loss of \$105,137.
- Property taxes increased a modest \$67,171 (2.8%) during the year. Most of this increase is the product of increased taxable values and residential growth.
- The increase in property taxes was offset by a \$123,872 decrease in State shared revenue.
- Staffing levels were reduced due to attrition resulting in decreased operating expenditures that offset decreasing revenues.
- Governmental activities investment earnings were down about sixteen percent (16%) while system wide investment earnings were down 53% from last year.

Business-type activities. Business-type activities increased the City's net assets by \$ 1,770,794, accounting for ninety-eight percent (98%) of the total growth in the government's net assets for the current year. This comes in a year when the Utility lost two of its large industrial customers. Key elements of this increase are as follows:

- Net income of the Electric Fund was \$70,275 despite the fact that operating revenues declined by four percent, in conjunction with an eight percent (8%) increase in expenses.
- The water fund experienced a net income of \$176,156. Revenues in this fund went up eight percent (8%) and expenses went down eight percent 8% due to increased rates and a decrease in transmission and distribution costs.
- The sewer fund net income was down by fifty-eight percent (58%) from last year due to reduction in customer usage, increased operating expenses, and a decrease in interest income.
- The transportation business-type activity experienced a net income for the year of \$63,317 because of increased capital purchases funded entirely through grant funding from state and federal sources.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,999,613. That is an increase of \$144,278 in comparison with the prior year. Of that number, \$1,398,206 is designated as unreserved. Overall, the total Governmental Fund Revenues decreased one percent (\$59,403) and the total expenditures declined by sixteen percent (16%) or \$1,007,146 from last year. The revenue decline is primarily due to a reduction in investment earnings and state shared revenue cuts. The decrease in expenditures is twofold; a reduction in staffing levels and a reduction in capital expenditures for the Library Expansion Project. Three staff positions were not filled when vacated. The other reason for the decline in expenditures is the completion of the Library expansion project. The Library Improvement Fund decreased its expenditures by ninety-five percent (95%) or \$1,005,000. That reduction in expenditures also changed the status of that fund from a Major to a Non-major fund. The *reserved* fund balance (\$601,407) of the governmental funds is not available for new spending because it has already been committed 1) to generate income for the support and maintenance of R.L. Owen's Park (\$16,533), 2) to generate income to pay for the perpetual care of the two municipal cemeteries (\$528,196), and 3) for a variety of other restricted purposes (\$56,678).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$573,885. All the general fund balance except \$55,075 is unreserved and therefore available for spending at the government's discretion.

During the current fiscal year, the fund balance of the City's General Fund decreased by \$48,410. This is primarily attributable to an increased transfer to Capital Improvement Fund in preparation for a major street project scheduled for summer of 2005.

The Capital Improvement Fund has a total fund balance of \$270,230, which was increased during the year due an additional transfer from the General Fund in preparation for the M-99 and North Hillsdale Street reconstruction project.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer, electric, and transportation funds at the end of the year amounted to a total of \$8,019,031. Net income for all City Proprietary funds was \$447,719. The four business-type funds showed a net income for the year, while the Governmental Activities Internal Service funds had a net loss of \$15,723.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for General Fund were \$124,500. The Treasurer's budget was increased \$55,000 because of a Michigan Tax Tribunal ordered refund. An additional \$32,500 was added to Public Services budget and \$31,000 to the Parks budget for labor reallocation from the Street funds. The remaining \$6,000 was added to the General Operations budget for re-stripping of the parking lots not originally budgeted. Transfers out of General Fund to both the Recreation and Capital Improvement Funds were adjusted to cover increased costs in the Recreation Fund and future capital projects.

The City budgeted for a balanced budget. However, the general fund revenues did not quite equal total expenditures, because of the increased transfer to Capital Improvement Fund and added work done in the Parks and Parking Lots by the Public Service staff. That resulted in a slight decrease in fund balance of \$48,410.

Budget to actual comparisons for all other City special revenue funds were generally favorable in varying degrees.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2004, amounted to \$42,990,109 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment, Library books, recreational land improvements, roads, sidewalks, and storm water utility. The total decrease in the City's investment in capital assets for the current fiscal year was .01 percent (a 2.4 percent decrease for governmental activities and a 2.8 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- A variety of infrastructure projects (street resurfacings, sidewalk construction, bike path improvements, and parking lot repairs) at a combined cost of approximately \$695,422.
- Ownership of Inman Park was transferred to the Hillsdale Community Schools and was therefore removed totaling \$105,138 from the capital asset listing.
- The utilities (electric, water, and sewer funds) did a variety of projects throughout the year totaling \$2,235,672. Those projects included the purchase of Christmas decorations, and M-99 electrical line rebuild, building renovations, substation upgrades, fiber optic cable installation, telephone system, water main upgrade, URD conversions, sludge storage tank, mobile reading conversion, and the purchase of various pieces of equipment.
- A new bus was purchased for Dial-A-Ride at a cost of \$81,697.
- Primary Government purchased two trucks (a dump truck and a used bucket truck) along with several small miscellaneous pieces of equipment for a total cost of \$120,663.

City's Capital Assets

(Net of Depreciation)

	Governmental		Business-type		Total		Total
	Activities		Activities		Total		Percent
	2003	2004	2003	2004	2003	2004	Change
							2003-04
Land	\$3,376,931	\$3,271,793	\$17,467	\$17,467	\$3,394,398	\$3,289,260	-3.10%
Buildings and System Improvements	2,151,224	3,962,485	20,693,054	21,789,626	22,966,191	25,752,111	12.13%
Library Books	133,961	46,112			133,961	46,112	-65.58%
Machinery and Equipment	821,134	791,274	140,005	164,571	961,139	955,845	-0.55%
Infrastructure	12,283,427	12,062,362			12,283,427	12,062,362	-1.80%
Construction in Progress	1,872,050	0	1,381,673	884,419	3,253,723	884,419	-72.82%
Total	\$20,638,727	\$20,134,026	\$22,232,199	\$22,856,083	\$42,992,839	\$42,990,109	-0.01%

Additional information on the City's capital assets can be found in note No. 5 on pages 22 -23 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$5,175,000, which consisted of revenue bonds, where the City has pledged the income to be received from the constructed assets to pay the debt service of the related bond issues.

City's Outstanding Debt

General Obligation and Revenue Bonds

	Business –type Activities		Total	
	2003	2004	2003	2004
General Obligation Bonds and Revenue Bonds	\$5,535,000	\$5,175,000	\$5,535,000	\$5,175,000
Total	\$5,535,000	\$5,175,000	\$5,535,000	\$5,175,000

The City's total debt decreased during the current fiscal year by \$ 361,016 or six percent (6.3%). New debt issued consisted of \$280,000 of Community Development Block Grant funds used to acquire industrial park property in 2000 that CDBG national policy required must be repaid.

The City of Hillsdale has a revenue bond rating with Standard & Poor's of "BBB" and a "Baa1" rating from Moody's. The City has no general obligation bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$17,222,399, which is significantly in excess of the City's total outstanding obligation long-term debt of \$6,873,441.

Additional information on the City's long-term debt can be found in note No. 8 on pages 26-27 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The unemployment rate for Hillsdale County (which includes the City) is currently 7.2 %, which is decrease of 2.9 % from one year ago and about one-half of one percent higher than the state's average unemployment rate of 6.7% and 1.8% higher than the national unemployment average of 5.4%.
- Inflationary trends in the region compare favorably to national indices.
- State shared revenues are likely to decrease due to declining revenue streams coming in to the State of Michigan, for which a portion are distributed back to municipalities based on formulas.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, 97 N. Broad Street, Hillsdale, Michigan 49242.

City of Hillsdale, Michigan
Statement of Net Assets
June 30, 2004

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance Authority	Development Corporation
Assets:					
Cash and investments	\$ 2,010,750	\$ 5,056,980	\$ 7,067,730	\$ 30,398	\$ 36,170
Receivables	729,431	1,170,310	1,899,741	-	-
Internal balances	16,038	(16,038)	-	-	-
Prepaid items and other assets	83,588	121,741	205,329	-	-
Inventory	101,318	738,076	839,394	-	-
Investment in MSCPA	-	3,204,359	3,204,359	-	-
Capital assets, net					
Assets not being depreciated	3,271,793	901,886	4,173,679	-	-
Assets being depreciated	<u>16,862,233</u>	<u>21,954,197</u>	<u>38,816,430</u>	-	-
Total assets	<u>23,075,151</u>	<u>33,131,511</u>	<u>56,206,662</u>	<u>30,398</u>	<u>36,170</u>
Liabilities:					
Accounts payable	73,083	81,437	154,520	-	-
Accrued expenses	52,329	815,788	868,117	-	-
Accrued interest	4,155	47,520	51,675	-	-
Noncurrent liabilities:					
Due within one year	177,620	456,000	633,620	-	-
Due in more than one year	<u>1,376,895</u>	<u>4,869,091</u>	<u>6,245,986</u>	-	-
Total liabilities	<u>1,684,082</u>	<u>6,269,836</u>	<u>7,953,918</u>	-	-
Net Assets:					
Invested in capital assets, net of related debt	18,787,026	17,681,086	36,468,112	-	-
Restricted for:					
Debt service	1,568	1,161,558	1,163,126	-	-
Capital projects	677,561	-	677,561	-	-
Endowment and trust principal	544,729	-	544,729	-	-
Unrestricted	<u>1,380,185</u>	<u>8,019,031</u>	<u>9,399,216</u>	<u>30,398</u>	<u>36,170</u>
Total net assets	<u>\$ 21,391,069</u>	<u>\$ 26,861,675</u>	<u>48,252,744</u>	<u>\$ 30,398</u>	<u>\$ 36,170</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Activities
Year Ended June 30, 2004

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
General government	\$ 994,003	\$ 132,677	\$ 405,083	\$ 89,522	\$ (366,721)
Public safety	1,655,436	-	15,457	-	(1,639,979)
Public works	458,930	101,061	-	-	(357,869)
Highways and streets	1,652,853	-	674,040	-	(978,813)
Health	148,811	-	-	-	(148,811)
Culture and recreation	606,080	128,151	147,518	-	(330,411)
Interest on long-term debt	26,646	-	-	-	(26,646)
Unallocated depreciation	36,368	-	-	-	(36,368)
Total governmental activities	<u>5,579,127</u>	<u>361,889</u>	<u>1,242,098</u>	<u>89,522</u>	<u>(3,885,618)</u>
Business-type activities:					
Electric	10,214,235	10,158,204	-	-	(56,031)
Sewer	1,019,765	1,126,466	-	-	106,701
Water	961,151	1,105,470	-	-	144,319
Transportation	421,872	49,149	315,255	-	(57,468)
Total business-type activities	<u>12,617,023</u>	<u>12,439,289</u>	<u>315,255</u>	<u>-</u>	<u>137,521</u>
Total primary government	<u>\$ 18,196,150</u>	<u>\$ 12,801,178</u>	<u>\$ 1,557,353</u>	<u>\$ 89,522</u>	<u>\$ (3,748,097)</u>
Component units					
Economic Development	\$ -	\$ -	\$ -	\$ -	\$ -
Tax Increment Financing Authority	<u>300,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(300,390)</u>
Total component units	<u>\$ 300,390</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (300,390)</u>

continued..

City of Hillsdale, Michigan
Statement of Activities (Continued)
Year Ended June 30, 2004

	Primary Government			Component Units	
	Governmental	Business-type	Total	Tax Increment	Economic
	Activities	Activities		Finance	Development
				Authority	Corporation
Changes in Net Assets					
Net (expense) revenue	\$ (3,885,618)	\$ 137,521	\$ (3,748,097)	\$ (300,390)	\$ -
General revenues:					
Property taxes	2,417,577	-	2,417,577	84,422	-
Unrestricted grants and contributions	985,578	-	985,578	-	-
Interest and investment earnings	57,926	49,284	107,210	1,458	262
Other revenues	464,727	140,129	604,856	-	-
Prior year adjustment CDBG	(280,000)	-	(280,000)	-	-
Losses on sale of land	(105,137)	-	(105,137)	-	-
Transfers - internal activities	(71,411)	120,785	49,374	(49,374)	-
Total general revenues, contributions and transfers	3,469,260	310,198	3,779,458	36,506	262
Changes in Net Assets	(416,358)	447,719	31,361	(263,884)	262
Net Assets - Beginning of Year	21,807,427	26,413,956	48,221,383	294,282	35,908
Net Assets - End of Year	\$ 21,391,069	\$ 26,861,675	\$ 48,252,744	\$ 30,398	\$ 36,170

See Notes to Financial Statements.

City of Hillsdale, Michigan

Balance Sheet Governmental Funds June 30, 2004

	Other Nonmajor Governmental			
	General	Capital Improvement	Funds	Total
<u>Assets</u>				
Cash	\$ 361,734	\$ 257,603	\$ 577,368	\$ 1,196,705
Short-term investments	-	-	453,254	453,254
Receivables:				
Taxes receivable	15,851	-	-	15,851
Accounts receivable	42,389	3,754	60,808	106,951
Special assessments	-	345,693	-	345,693
Due from other governmental units	157,516	-	103,058	260,574
Due from other funds	76,250	10,659	-	86,909
Prepaid expenditures	55,075	-	1,603	56,678
Total assets	<u>\$ 708,815</u>	<u>\$ 617,709</u>	<u>\$ 1,196,091</u>	<u>\$ 2,522,615</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 32,721	\$ 1,714	\$ 20,238	\$ 54,673
Due to other funds	-	-	70,871	70,871
Salaries payable	40,537	72	4,559	45,168
Deferred revenue	-	345,693	-	345,693
Other liabilities	6,597	-	-	6,597
Total liabilities	<u>79,855</u>	<u>347,479</u>	<u>95,668</u>	<u>523,002</u>
Fund Balances:				
Reserved:				
Reserved for prepaid expenditures	55,075	-	1,603	56,678
Perpetual care and endowment	-	-	544,729	544,729
Unreserved; undesignated	573,885	270,230	-	844,115
Unreserved; undesignated- reported in nonmajor:				
Special revenue funds	-	-	482,260	482,260
Debt service fund	-	-	5,723	5,723
Capital project funds	-	-	66,108	66,108
Total fund balances	<u>628,960</u>	<u>270,230</u>	<u>1,100,423</u>	<u>1,999,613</u>
Total liabilities and fund balances	<u>\$ 708,815</u>	<u>\$ 617,709</u>	<u>\$ 1,196,091</u>	<u>\$ 2,522,615</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets June 30, 2004

Total Fund Balances - Governmental Funds \$ 1,999,613

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is

\$ 36,732,525

Accumulated depreciation is

(16,873,697)

19,858,828

Because the focus of governmental funds is on short-term financing,
some assets will not be available to pay for current-period expenditures.
Those assets (such as certain receivables) are offset by deferred revenues
in the governmental funds, and these are not included in fund balance.

Deferred special assessments

345,693

Internal service funds are used by management to charge the costs of certain
equipment usage and administrative costs to individual governmental funds.
The assets and liabilities of the internal service funds are included in governmental
activities in the Statement of Net Assets.

Net assets of governmental activities accounted for in the internal service fund

703,133

Long-term liabilities not due and payable in the current period
and not reported in the funds:

Contracts and loans payable

(1,347,000)

Accrued interest

(4,155)

Compensated absences

(165,043)

Total Net Assets - Governmental Activities

\$ 21,391,069

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2004

	<u>General</u>	<u>Capital Improvement</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:				
Taxes	\$ 2,272,696	\$ -	\$ 144,881	\$ 2,417,577
Intergovernmental - federal and State	990,053	-	689,319	1,679,372
Charges for services	-	-	96,024	96,024
Fines and violations	5,588	-	54,692	60,280
Miscellaneous	<u>1,004,384</u>	<u>64,378</u>	<u>213,219</u>	<u>1,281,981</u>
Total revenues	<u>4,272,721</u>	<u>64,378</u>	<u>1,198,135</u>	<u>5,535,234</u>
Expenditures:				
General government	946,313	-	-	946,313
Public safety	1,592,061	-	12,099	1,604,160
Public works	459,603	-	-	459,603
Highways and streets	-	-	637,235	637,235
Health	149,061	-	-	149,061
Culture and recreation	133,193	-	354,229	487,422
Debt service:				
Principal payments	-	-	148,000	148,000
Interest and fiscal charges	-	-	27,131	27,131
Capital outlay	<u>-</u>	<u>739,515</u>	<u>121,105</u>	<u>860,620</u>
Total expenditures	<u>3,280,231</u>	<u>739,515</u>	<u>1,299,799</u>	<u>5,319,545</u>
Revenues Over (Under) Expenditures	<u>992,490</u>	<u>(675,137)</u>	<u>(101,664)</u>	<u>215,689</u>
Other Financing Sources (Uses):				
Operating transfers in	22,000	761,874	379,315	1,163,189
Operating transfers out	<u>(1,062,900)</u>	<u>-</u>	<u>(171,700)</u>	<u>(1,234,600)</u>
Total other financing sources (uses)	<u>(1,040,900)</u>	<u>761,874</u>	<u>207,615</u>	<u>(71,411)</u>
Net Changes in Fund Balances	(48,410)	86,737	105,951	144,278
Fund Balances - Beginning of Year	<u>677,370</u>	<u>183,493</u>	<u>994,472</u>	<u>1,855,335</u>
Fund Balances - End of Year	<u>\$ 628,960</u>	<u>\$ 270,230</u>	<u>\$ 1,100,423</u>	<u>\$ 1,999,613</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities Governmental Funds Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds \$ 144,278

Amounts reported for governmental activities in the Statement
of Activities are different because:

Governmental funds report capital outlays as expenditures; in the
Statement of Activities, these costs are allocated over their estimated
useful lives as depreciation.

Depreciation expense	\$ (1,172,725)	
Capital outlay	<u>779,520</u>	(393,205)

In the Statement of Activities, only the loss on the sale of land is reported,
whereas in the governmental funds, the proceeds from the sale increases
financial resources. Thus the change in net assets differs from the change in
fund balances by the basis of the land sold. (105,137)

Revenues in the Statement of Activities that do not provide current financial
resources are not reported as revenues in the funds, but rather are deferred
to the following fiscal year.

Current year deferred special assessments	78,631
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Bond proceeds are reported as financing sources in governmental funds
and thus contribute to the change in fund balance. In the Statement of Net
Assets, however, issuing debt increases long-term liabilities and does not
affect the Statement of Activities. Similarly, repayment of principal is an
expenditure in the governmental funds but reduces the liability in the
Statement of Net Assets.

Adjustment for prior year CDBG required to be repaid	(280,000)
Repayment to bond holders	148,000

An internal service fund is used by management to charge the costs of
certain equipment usage to individual governmental funds. The net revenue
(expense) of the fund attributable to those funds is reported with
governmental activities.

Net operating income from governmental activities in the internal service fund	(15,723)
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Some expenses reported in the Statement of Activities do not require the use
of current financial resources and therefore are not reported as expenditures
in the funds.

Increase in accrued interest payable on bonds	485
Decrease in the accrual for compensated absences	<u>6,313</u>

Change in Net Assets of Governmental Activities \$ (416,358)

City of Hillsdale, Michigan
Statement of Net Assets
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
Assets:						
Current assets:						
Cash and cash equivalents	\$ 1,092,866	\$ -	\$ 190,361	\$ 97,770	\$ 1,380,997	\$ 360,791
Receivables:						
Accounts (net of allowance for bad debt of \$120,000)	998,672	69,780	84,106	-	1,152,558	362
Accrued interest	9,778	2,875	5,099	-	17,752	-
Due from other funds	22,303	-	1,082,187	-	1,104,490	-
Inventory, at cost	639,349	93,103	5,624	-	738,076	101,318
Prepaid expenses	74,682	16,192	26,713	4,154	121,741	26,910
Total current assets	2,837,650	181,950	1,394,090	101,924	4,515,614	489,381
Noncurrent Assets:						
Restricted investments	-	600,926	560,633	-	1,161,559	-
Designated investments	2,024,539	223,859	266,026	-	2,514,424	-
Total restricted and designated assets	2,024,539	824,785	826,659	-	3,675,983	-
Capital Assets:						
Land and improvements	27,816,415	9,980,214	12,998,609	-	50,795,238	-
Plant and equipment	-	-	-	416,261	416,261	1,395,127
Construction in progress	-	-	-	(251,690)	(251,690)	(1,119,929)
	27,816,415	9,980,214	12,998,609	164,571	50,959,809	275,198
Less accumulated depreciation	(15,693,740)	(3,925,835)	(8,484,151)	-	(28,103,726)	-
Net capital assets	12,122,675	6,054,379	4,514,458	164,571	22,856,083	275,198
Other assets - Investments in MSCPA	3,204,359	-	-	-	3,204,359	-
Total assets	20,189,223	7,061,114	6,735,207	266,495	34,252,039	764,579
Liabilities:						
Current liabilities (payable from current assets):						
Accounts payable	38,303	10,500	25,365	7,269	81,437	18,410
Accrued purchased power	725,851	-	-	-	725,851	-
Accrued expenses	68,573	-	-	2,347	70,920	564
Deposits	10,224	1,080	-	-	11,304	-
Due to other funds	29,671	1,022,412	26,165	42,280	1,120,528	-
Due to other governments	-	-	-	7,713	7,713	-
Total current liabilities (payable from current assets)	872,622	1,033,992	51,530	59,609	2,017,753	18,974
Current liabilities (payable from restricted assets):						
Bonds payable	-	235,000	140,000	-	375,000	-
Accrued interest	-	40,720	6,800	-	47,520	-
Total current liabilities (payable from restricted assets)	-	275,720	146,800	-	422,520	-
Noncurrent liabilities:						
Accrued compensated absences	81,251	30,749	31,926	6,165	150,091	42,472
General obligation and revenue bonds payable	-	3,580,000	1,220,000	-	4,800,000	-
Total noncurrent liabilities	81,251	3,610,749	1,251,926	6,165	4,950,091	42,472
Total liabilities	953,873	4,920,461	1,450,256	65,774	7,390,364	61,446
Net Assets:						
Invested in capital assets, net of related debt	12,122,677	2,239,379	3,154,459	164,571	17,681,086	275,198
Restricted investments	-	600,925	560,633	-	1,161,558	-
Unrestricted (deficit)	7,112,673	(699,651)	1,569,859	36,150	8,019,031	427,935
Total net assets	\$ 19,235,350	\$ 2,140,653	\$ 5,284,951	\$ 200,721	\$ 26,861,675	\$ 703,133

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Revenues, Expenses
and Changes in Fund Net Assets
Proprietary Funds
Year Ended June, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities
	Nonmajor Fund				Internal Service Funds	
	Electric	Water	Sewer	Dial-A-Ride	Totals	
Operating Revenues:						
Charges for services	\$ 10,158,204	\$ 1,105,470	\$ 1,126,466	\$ 43,269	\$ 12,433,409	\$ 370,814
Other	31,141	3,265	22,853	2,551	59,810	156,748
Total operating revenues	<u>10,189,345</u>	<u>1,108,735</u>	<u>1,149,319</u>	<u>45,820</u>	<u>12,493,219</u>	<u>527,562</u>
Operating Expenses:						
Purchased power	7,445,141	-	-	-	7,445,141	-
Production expense	948,546	63,012	-	-	1,011,558	-
Purification expense	-	205,026	-	-	205,026	-
Treatment expense	-	-	588,623	-	588,623	-
Transmission and distribution	935,666	304,850	-	-	1,240,516	-
Administrative	884,882	222,606	197,636	-	1,305,124	548,737
Sewer collection	-	-	204,281	-	204,281	-
Transportation	-	-	-	421,872	421,872	-
Total operating expenses	<u>10,214,235</u>	<u>795,494</u>	<u>990,540</u>	<u>421,872</u>	<u>12,422,141</u>	<u>548,737</u>
Operating Income (Loss)	<u>(24,890)</u>	<u>313,241</u>	<u>158,779</u>	<u>(376,052)</u>	<u>71,078</u>	<u>(21,175)</u>
Nonoperating Revenues (Expenses):						
Interest income	29,010	9,870	10,404	-	49,284	5,452
Interest expense	-	(165,657)	(29,225)	-	(194,882)	-
Other income (expense)	66,155	18,702	(1,987)	318,584	401,454	-
Total nonoperating revenues (expenses)	<u>95,165</u>	<u>(137,085)</u>	<u>(20,808)</u>	<u>318,584</u>	<u>255,856</u>	<u>5,452</u>
Net Income (Loss) Before Transfers	70,275	176,156	137,971	(57,468)	326,934	(15,723)
Transfers in from Other Funds	-	-	-	120,785	120,785	-
Net Income (Loss)	70,275	176,156	137,971	63,317	447,719	(15,723)
Net Assets - Beginning of Year	<u>19,165,075</u>	<u>1,964,497</u>	<u>5,146,980</u>	<u>137,404</u>	<u>26,413,956</u>	<u>718,856</u>
Net Assets - End of Year	<u>\$ 19,235,350</u>	<u>\$ 2,140,653</u>	<u>\$ 5,284,951</u>	<u>\$ 200,721</u>	<u>\$ 26,861,675</u>	<u>\$ 703,133</u>

City of Hillsdale, Michigan
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Funds
	Electric	Water	Sewer	Nonmajor Fund Dial-A-Ride	Total	
Cash Flows From Operating Activities:						
Cash received from customers, residents and users	\$ 10,098,040	\$ 1,107,436	\$ 796,463	\$ 45,820	\$ 12,047,759	\$ -
Other operating receipts	31,141	3,265	22,853	-	57,259	-
Receipts for interfund services provided	-	-	-	-	-	527,200
Cash paid to employees and suppliers	(9,855,229)	(320,305)	(704,617)	(366,469)	(11,246,620)	(519,861)
Net cash provided by (used in) operating activities	<u>273,952</u>	<u>790,396</u>	<u>114,699</u>	<u>(320,649)</u>	<u>858,398</u>	<u>7,339</u>
Cash Flows From Noncapital Financing Activities:						
Intergovernmental nonoperating revenues	-	-	-	315,255	315,255	-
Transfers from other funds	-	-	-	120,785	120,785	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>436,040</u>	<u>436,040</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities:						
Bond payments on capital debt	-	(225,000)	(135,000)	-	(360,000)	-
Interest on capital debt	-	(168,434)	(29,900)	-	(198,334)	-
Purchase of capital assets, net	(987,194)	(515,216)	(204,340)	(81,697)	(1,788,447)	(93,811)
Net cash used by capital and related financing activities	<u>(987,194)</u>	<u>(908,650)</u>	<u>(369,240)</u>	<u>(81,697)</u>	<u>(2,346,781)</u>	<u>(93,811)</u>
Cash Flows From Investing Activities:						
Proceeds from sale of investments	300,000	114,851	80,000	-	494,851	-
Purchase of investments	(64,341)	(21,735)	(26,598)	-	(112,674)	-
Other nonoperating income received	99,133	12,098	18,727	3,329	133,287	-
Other nonoperating expenses	-	-	-	-	-	-
Interest income received	34,868	13,040	10,195	-	58,103	5,452
Net cash provided by investing activities	<u>369,660</u>	<u>118,254</u>	<u>82,324</u>	<u>3,329</u>	<u>573,567</u>	<u>5,452</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(343,582)</u>	<u>-</u>	<u>(172,217)</u>	<u>37,023</u>	<u>(478,776)</u>	<u>(81,020)</u>
Cash and Cash Equivalents - Beginning of Year	<u>1,436,448</u>	<u>-</u>	<u>362,578</u>	<u>60,747</u>	<u>1,859,773</u>	<u>441,811</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,092,866</u>	<u>\$ -</u>	<u>\$ 190,361</u>	<u>\$ 97,770</u>	<u>\$ 1,380,997</u>	<u>\$ 360,791</u>

Continued..

City of Hillsdale, Michigan
Statement of Cash Flows (Continued)
Proprietary Funds
Year Ended June 30, 2004

	Business-type Activities - Enterprise Funds					Governmental
	Electric	Water	Sewer	Nonmajor	Total	Activities - Internal Service Funds
				Fund Dial-A-Ride		
Balance Sheet Classification of Cash						
Current assets - cash and cash equivalents	<u>\$ 1,092,866</u>	<u>\$ -</u>	<u>\$ 190,361</u>	<u>\$ 97,770</u>	<u>1,380,997</u>	<u>\$ 360,791</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Operating income (loss)	\$ (24,890)	\$ 313,241	\$ 158,779	\$ (376,052)	71,078	\$ (21,175)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation	646,756	188,260	272,416	57,131	1,164,563	100,171
Changes in:						
Accounts receivable	(49,564)	4,008	(4,117)	729	(48,944)	(362)
Due from other funds	(16,082)	-	(325,886)	-	(341,968)	-
Inventory	4,601	(16,119)	581	-	(10,937)	(55,241)
Prepaid expenses	(19,766)	(4,352)	(4,294)	(3,182)	(31,594)	(24,012)
Investment in M.S.C.P.A.	(16,050)	-	-	-	(16,050)	-
Accounts payable	(244,681)	(26,546)	(11,653)	559	(282,321)	6,704
Accrued expenses	(25,443)	4,760	2,708	166	(17,809)	-
Due to other funds	29,671	329,186	26,165	-	385,022	-
Customer deposits	(10,600)	(2,042)	-	-	(12,642)	1,254
Net Cash Provided by (Used in) Operating Activities	<u>\$ 273,952</u>	<u>\$ 790,396</u>	<u>\$ 114,699</u>	<u>\$ (320,649)</u>	<u>\$ 858,398</u>	<u>\$ 7,339</u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2004

	Hospital Private Purpose Trust Fund	Agency Funds
Assets:		
Cash and cash equivalents	\$ 15,068	\$ 16,795
Liabilities:		
Due to other agencies	-	\$ 16,795
Net Assets:		
Unrestricted	15,068	
Total net assets	\$ 15,068	

City of Hillsdale, Michigan
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
Year Ended June 30, 2004

	<u>Hospital Private Purpose Trust Fund</u>
Revenue:	
Interest income	\$ 539
Expenses:	
Other	<u> 731</u>
Change in Net Assets	(192)
Net Assets - Beginning of Year	<u> 15,260</u>
Net Assets - End of Year	<u><u>\$ 15,068</u></u>

See Notes to Financial Statements.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The City of Hillsdale, Michigan was organized in 1847 and covers an area of approximately 5.5 square miles in Hillsdale County. In 1957, the City adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter to its more than 8,233 residents (2000 census): public safety (police and fire), highways and streets, sanitation, health, housing, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Hillsdale have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

Reporting Entity

The City of Hillsdale (the "City") has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 34. As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because the City is considered to be financially accountable for them.

In conformity with generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units – The component unit columns in the combined financial statements include the financial data of the City's two component units. These units are reported in separate columns to emphasize that they are legally separate from the City:

Tax Increment Finance Authority – Operated as a separate Board, this Authority is responsible for directing improvements to a District in the City of Hillsdale from funds derived from the capturing of real and personal property taxes within that District. The City has the ability to significantly influence operations and has accountability for fiscal matters.

Economic Development Corporation – This entity is governed by a separate Board appointed by the City Council to grant loans to businesses operating in the City.

The financial statements of the Hillsdale Housing Commission are excluded from the accompanying financial statements since the Housing Commission's operating and capital expenditures, including debt service, are financed entirely from federal grants and rentals. The City has no involvement in the determination of the Housing Commission's budget and rental rates, and has no obligation for the Housing Commission's outstanding debt. Summarized financial statements as of and for the year ended June 30, 2003, the date of their most recently prepared audited financial statements, are as follows:

Revenue	\$298,728	Assets	\$1,576,553
Expenses	402,754	Liabilities	45,144
Excess expenses over revenues	(104,026)	Fund equity	1,531,409
Other income (net)	8,270		
Net loss	(95,756)		

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund-Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

General Fund – This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Capital Improvement Fund – This fund is used to account for the financial resources to be used for the construction of major capital facilities projects (other than those financed by proprietary and trust funds).

The government reports the following major proprietary funds:

Electric Fund – The electric fund accounts for the activities of the government's electric generation and distribution system.

Water Fund – The water fund accounts for the activities of the government's water production, purification, and distribution systems.

Sewer Fund – The sewer fund accounts for the activities of the government's sewage collection and treatment systems.

Additionally, the government reports the following fund types:

Special Revenue Funds – These funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects).

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for and the payment of principal and interest on long-term general obligation debt of governmental funds not being financed by proprietary funds.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Project Funds – These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Internal Service Funds – The internal service funds account for operations that provide services (such as leave and benefits, inventory purchasing, equipment rental and unemployment insurance) to other departments of the City on a cost-reimbursement basis.

R.I. Owen Memorial Fund – This permanent fund accounts for monies held in trust to be used for the activities specified in the related trust agreement.

Cemetery Perpetual Fund – This permanent fund accounts for monies held in trust to be used for the perpetual care of cemetery lots.

Dial-A-Ride Fund – This fund accounts for the operations of the local transportation system in the City of Hillsdale.

Hospital Private Purpose Trust Fund – This fund accounts for contributions earmarked for hospital care.

Agency Funds – These funds account for assets held for other governments in an agency capacity.

Additional Financial Statement Presentation Information - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the electric, water and sewer enterprise funds and of the government's internal service fund are charges to customers for sales and services. The enterprise funds also recognize as operating revenues the portion of fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Deposits and Investments – The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

Receivables and Payables – All receivables are reported at their net value. They are reduced, where appropriate, by the estimated portion that is expected to be uncollectible.

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventory – Inventory is valued at cost, which approximates market, using the first-in, first-out method. Inventory of the Hillsdale Board of Public Utilities (reported as business-type activities, major proprietary funds) are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when purchased.

Prepaid Items – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets – Certain proceeds of the Enterprise Funds' revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, certain resources have been set aside to fund capital asset replacements.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	50
Vehicles	5 - 12
Books	7
Equipment	5 - 20
Infrastructure	15 - 50
Plant and systems	10 - 65

Compensated Absences – It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation, sick and personal days are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the obligation is expected to be liquidated from expendable available financial resources.

Long-Term Obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Property Taxes - The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 31; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Hillsdale County.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the City for 2003 had a taxable value of approximately \$137,000,000 (not including properties subject to Industrial Facilities Tax exemption), representing 50% of estimated current market value. The government's general operating tax rate for fiscal year 2003-04 was 14.919 mills, with an additional .9946 mills levied for operations of the Mitchell Public Library.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (Continued)

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City of Hillsdale, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. The Council holds public hearings and a final budget must be prepared and adopted prior to July 1.

The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. The adopted budgets of the City for these budgetary funds were adopted on a functional basis for the General Fund and a fund basis for the Special Revenue Funds. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Excess of Expenditures Over Appropriations

For the year ended June 30, 2004 there were no expenditures that exceeded appropriations in the General Fund.

Note 3 – Deposits and Investments

At year-end, the carrying amount of deposits for the government was \$1,801,786. Of the bank balance, \$362,268 was covered by federal depository insurance. The remaining balance of \$1,425,785 was uninsured and uncollateralized. See Note 1 for further description of deposits and investments.

The government believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 3 – Deposits and Investments (Continued)

Investments are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year end, the City's investment balances were as follows:

	<u>Category</u>			Carrying Amount (Fair Value)
	<u>1</u>	<u>2</u>	<u>3</u>	
U.S. government securities	\$ <u> </u> -	\$ <u>3,428,195</u>	\$ <u> </u> -	\$3,428,195
Mutual and cash management funds (uncategorized as to risk)				1,381,733
Certificates of deposit				<u>554,447</u>
Total investments				<u>\$5,364,375</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

	<u>Primary Government</u>	<u>Component Unit</u>
Statement of Net Assets:		
Cash and investments	\$7,067,730	\$ 66,568
Statement of Fiduciary Net Assets:		
Hospital Private Purpose Trust Fund:		
Cash and cash equivalents	15,068	-
Agency Funds:		
Cash and cash equivalents	<u>16,795</u>	<u>-</u>
	<u>\$7,099,593</u>	<u>\$ 66,568</u>
	<u>Primary Government</u>	<u>Component Unit</u>
Bank deposits (checking accounts, savings accounts and CDs)	\$1,732,418	\$ 66,568
Investments in securities, mutual funds and similar vehicles	5,364,375	-
Cash on hand	<u>2,800</u>	<u>-</u>
	<u>\$7,099,593</u>	<u>\$ 66,568</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 4 – Receivables

Receivables of the governmental activities of the primary Government at June 30, 2004, consist of the following:

Other governmental units (primarily the State of Michigan)	\$260,574
Accounts receivable	107,313
Special assessments	345,693
Taxes receivable	<u>15,851</u>
	<u>\$729,431</u>

Note 5 - Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

Primary Government	Beginning Balance	Additions	Disposals and Adjustments	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$3,376,931	\$ -	\$ 105,138	\$3,271,793
Construction in progress	<u>1,872,050</u>	<u>-</u>	<u>1,872,050</u>	<u>-</u>
Total capital assets not being depreciated	<u>5,248,981</u>	<u>-</u>	<u>1,977,188</u>	<u>3,271,793</u>
Capital assets being depreciated:				
Land improvements	195,035	-	-	195,035
Buildings and improvements	2,789,207	1,911,070	-	4,700,277
Books	421,494	18,228	-	439,722
Equipment and vehicles	2,319,440	120,663	118,419	2,321,684
Infrastructure	<u>26,503,719</u>	<u>695,422</u>	<u>-</u>	<u>27,199,141</u>
Total capital assets being depreciated	<u>32,228,895</u>	<u>2,745,383</u>	<u>118,419</u>	<u>34,855,859</u>
Accumulated depreciation:				
Land improvements	73,122	8,101	-	81,223
Buildings and improvements	759,896	91,708	-	851,604
Books	287,533	106,077	-	393,610
Equipment and vehicles	1,498,306	157,179	125,075	1,530,410
Infrastructure	<u>14,220,292</u>	<u>916,487</u>	<u>-</u>	<u>15,136,779</u>
Total accumulated depreciation	<u>16,839,149</u>	<u>1,279,552</u>	<u>125,075</u>	<u>17,993,626</u>
Total capital assets being depreciated - net	<u>15,389,746</u>	<u>1,465,831</u>	<u>(6,656)</u>	<u>16,862,233</u>
Governmental activities capital assets - net	<u>\$20,638,727</u>	<u>\$1,465,831</u>	<u>\$1,970,532</u>	<u>\$20,134,026</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 5 - Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Additions	Disposals and Deductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 17,467	\$ -	\$ -	\$ 17,467
Construction in progress	<u>1,381,673</u>	<u>235,672</u>	<u>732,926</u>	<u>884,419</u>
Total capital assets not being depreciated	<u>1,399,140</u>	<u>235,672</u>	<u>732,926</u>	<u>901,886</u>
Capital assets being depreciated:				
Equipment	396,354	81,697	61,790	416,261
Plant and systems	<u>47,993,843</u>	<u>2,235,672</u>	<u>336,163</u>	<u>49,893,352</u>
Total capital assets being depreciated	<u>48,390,197</u>	<u>2,317,369</u>	<u>397,953</u>	<u>50,309,613</u>
Accumulated depreciation:				
Equipment	256,349	57,131	61,790	251,690
Plant and systems	<u>27,300,789</u>	<u>1,107,432</u>	<u>304,495</u>	<u>28,103,726</u>
Total accumulated depreciation	<u>27,557,138</u>	<u>1,164,563</u>	<u>366,285</u>	<u>28,355,416</u>
Total capital assets being depreciated - net	<u>20,833,059</u>	<u>1,152,806</u>	<u>31,668</u>	<u>21,954,197</u>
Business-type activities capital assets - net	<u>\$22,232,199</u>	<u>\$ 1,388,478</u>	<u>\$ 764,594</u>	<u>\$22,856,083</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public safety	\$ 53,624
Highways and streets	878,432
Culture and recreation	175,684
Public works	28,617
Unallocated	36,368
Capital assets held by the City's internal service funds are charged to the various functions based on their usage of the assets	<u>106,827</u>
Total depreciation expense – governmental activities	<u>\$ 1,279,552</u>
Business-Type Activities:	
Electric	\$ 646,756
Water	188,260
Sewer	272,416
Transportation	<u>57,131</u>
Total depreciation expense – business-type activities	<u>\$ 1,164,563</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 6 - Interfund Receivables, Payables and Transfers

The City reports interfund balances between many of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

	<u>Receivable</u>	<u>Payable</u>
Due from/to other funds:		
General Fund	\$ 76,250	\$ -
Capital Improvement	10,659	-
Nonmajor Governmental Funds	-	70,871
Water Fund	-	1,022,412
Sewer Fund	1,082,187	26,165
Electric Fund	22,303	29,671
Nonmajor Enterprise Fund	-	42,280
	<u>\$1,191,399</u>	<u>\$ 1,191,399</u>
	<u>Transfers In</u>	<u>Transfers Out</u>
Transfers:		
General Fund	\$ 22,000	\$ 1,062,900
Capital Improvement	761,874	-
Library Improvement	-	97,200
Nonmajor Governmental Funds	379,315	74,500
Componet Unit	-	49,374
Nonmajor Enterprise Fund	120,785	-
	<u>\$1,283,974</u>	<u>\$ 1,283,974</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Note 7 - Investment in Michigan South Central Power Agency

The Michigan South Central Power Agency (M.S.C.P.A.) was organized in 1978 under the authority of Michigan Public Act 448 of 1976, to supply electricity to member municipalities in South Central Michigan. The Act provides that the agency will establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the benefit of the public. The agency is governed by a Board of Commissioners which is comprised of one representative from each participating municipality and the general manager of the agency.

Participating municipalities and their respective shares of ownership are as follows:

	<u>Percent of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5
City of Marshall	24.0
Village of Clinton	6.5
Village of Union City	4.0
	<u>100.0%</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 7 - Investment in Michigan South Central Power Agency (Continued)

The City of Hillsdale Board of Public Utilities is accounting for its investment in M.S.C.P.A. as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the M.S.C.P.A. for the year ended June 30, 2004, audited by other auditors whose report dated August 12, 2004, expressed an unqualified opinion for those statements.

The Board has entered into a Power Sales Contract with M.S.C.P.A. which requires the Board to purchase all of its bulk power supply from M.S.C.P.A. and to pay its share of the agency's operating and debt service costs. The Board has also entered into an agreement for services to be provided by M.S.C.P.A. in respect to substation facilities and an agreement which requires the Board to sell to the agency power generated by its facilities in certain instances.

Summary information of the Hillsdale Board of Public Utilities investment in the M.S.C.P.A. as of and for the year ended June 30, 2004, is as follows:

	<u>Total M.S.C.P.A.</u>	<u>Hillsdale Board of Public Utilities Portion 25.5%</u>
Total assets	\$85,109,361	\$21,702,887
Total liabilities	<u>72,543,249</u>	<u>18,498,528</u>
Net Assets	<u>\$12,566,112</u>	<u>\$ 3,204,359</u>
Operating revenues	\$36,757,645	\$ 9,373,199
Operating expenses	<u>28,941,742</u>	<u>7,380,144</u>
Operating Income	7,815,903	1,993,055
Other income and expenses	<u>(7,752,964)</u>	<u>(1,977,005)</u>
Changes in Net Assets	62,939	16,050
Net Assets, Beginning of Year	<u>12,503,173</u>	<u>3,188,309</u>
Net Assets, End of Year	<u>\$12,566,112</u>	<u>\$ 3,204,359</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt

General Obligation Bonds - The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. No general obligation bonds were issued during the current year.

Other Obligations - The government has entered into various long-term loan and installment contract agreements.

During the year, the City was informed that \$280,000 of Community Development Block Grant funds initially received to acquire industrial park property must be returned due to CDBG national policy objective requirements.

Loan and installment obligations currently outstanding are as follows:

<u>Purpose</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental Activities:			
Other government debt:			
Loan – Strategic Loan Fund –			
Road improvements	2013	0.00%	\$ 500,000
Municipal purchase contract -			
Library building improvements	2013	4.19%	595,000
Loan – Community			
Development Block Grant –			
Industrial park property acquisitions	2013	0.00%	<u>252,000</u>
			<u>\$1,347,000</u>

Annual debt service requirements to maturity for the loan and municipal service contract obligations are as follows:

<u>Year Ending June 30,</u>	<u>Other Governmental Debt</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 148,000	\$ 24,197
2006	148,000	21,265
2007	148,000	18,331
2008	148,000	15,398
2009	148,000	12,465
2010 – 2014	<u>607,000</u>	<u>20,532</u>
Total	<u>\$1,347,000</u>	<u>\$112,188</u>

City of Hillsdale, Michigan
Notes to Financial Statements

Note 8 - Long-Term Debt (Continued)

Revenue Bonds - The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. No revenue bonds were issued during the current year. Revenue bonds outstanding at year end are as follows:

<u>Business-Type Activities</u>	<u>Due in Fiscal Year End</u>	<u>Interest Rates</u>	<u>Amount</u>
1994 Water	2004	5.60%	\$ 115,000
1999 Water	2019	4.75% - 5.10%	2,060,000
2002 Water Refunding	2014	3.00% - 4.00%	1,640,000
1992 Sewer	2013	2%	<u>1,360,000</u>
			<u>\$5,175,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 375,000	\$ 184,185
2006	385,000	170,896
2007	395,000	158,789
2008	410,000	146,314
2009	420,000	133,396
2010 – 2014	2,150,000	448,449
2015 – 2019	<u>1,040,000</u>	<u>115,333</u>
Total	<u>\$5,175,000</u>	<u>\$1,357,362</u>

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities:					
Contract and loans payable	\$1,215,000	\$ 280,000	\$ 148,000	\$1,347,000	\$ 148,000
Compensated absences	<u>213,138</u>	<u>-</u>	<u>5,623</u>	<u>207,515</u>	<u>29,620</u>
	<u>\$1,428,138</u>	<u>\$ 280,000</u>	<u>\$ 153,623</u>	<u>\$1,554,515</u>	<u>\$ 177,620</u>
Business-type activities:					
Revenue bonds	\$5,535,000	\$ -	\$ 360,000	\$5,175,000	\$ 375,000
Compensated absences	<u>144,942</u>	<u>5,149</u>	<u>-</u>	<u>150,091</u>	<u>81,000</u>
	<u>\$5,679,942</u>	<u>\$ 5,149</u>	<u>\$ 360,000</u>	<u>\$5,325,091</u>	<u>\$ 456,000</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 9 - Segment Information – Enterprise Funds

The government issued revenue bonds to finance certain improvements to its water and sewer distribution and treatment systems. Because the Water and Sewer Funds, which are individual funds that account entirely for the government's water distribution and treatment and sewage disposal and treatment activities, are segments, and are reported as major funds in the fund financial statements, segment disclosures herein are not required.

Note 10 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2004, the City carried commercial insurance to cover all risks of losses. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

Note 11 - Pension Plan

Plan Description - The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy - The City is required to contribute at an actuarially determined rate designed to accumulate sufficient assets to pay benefits when due. Employees are currently required to contribute 3-5% of covered wages to the Plan. The contribution requirements of the City are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City.

Annual Pension Cost - For the year ended June 30, 2004, the City's annual pension cost of \$38,134 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability at December 31, 2003, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

City of Hillsdale, Michigan
Notes to Financial Statements

Note 11 - Pension Plan (Continued)

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/20/02	\$ 2,950	100%	\$ -
6/30/03	2,900	100%	-
6/30/04	2,850	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) – Entry Age</u>	<u>Assets in Excess of AAL</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$13,387,593	\$10,657,335	\$2,730,258	126%	\$3,370,126	-%
12/31/02	13,429,609	11,575,379	1,854,230	116	3,571,650	-
12/31/03	13,943,123	12,682,283	1,260,840	116	3,684,530	-

Note 12 - Commitments and Contingencies

The City participates in a number of federally-assisted grant programs. These programs are subject to program compliance audits. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by granting agencies cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

Required Supplemental Information

City of Hillsdale, Michigan
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Budget to Actual
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		
	Original	Final	Actual
Revenues:			
City taxes:			
Property	\$ 2,090,000	\$ 2,090,000	\$ 2,047,479
Administrative fees	66,500	66,500	70,033
Interest and penalties	20,000	20,000	29,246
Industrial facilities tax	<u>140,000</u>	<u>140,000</u>	<u>125,938</u>
Total city taxes	2,316,500	2,316,500	2,272,696
State revenue	978,000	978,000	989,117
Federal revenue	-	-	936
Other revenue	<u>981,650</u>	<u>975,650</u>	<u>1,009,972</u>
Total revenues	<u>4,276,150</u>	<u>4,270,150</u>	<u>4,272,721</u>
Expenditures:			
General government:			
Council	32,800	32,800	26,886
Clerk	116,285	116,285	108,470
City manager	181,725	181,725	178,751
Assistant city manager	69,975	69,975	69,840
Administrative	203,725	203,725	137,168
Treasurer	69,720	124,720	106,852
Street lights	44,000	44,000	39,321
Airport	67,995	67,995	67,977
Finance department	78,805	78,805	79,557
General operation	<u>137,085</u>	<u>143,085</u>	<u>131,491</u>
Total general government	<u>1,002,115</u>	<u>1,063,115</u>	<u>946,313</u>
Public safety:			
Police	1,284,550	1,284,550	1,261,681
Fire	<u>380,435</u>	<u>380,435</u>	<u>330,380</u>
Total public safety	<u>1,664,985</u>	<u>1,664,985</u>	<u>1,592,061</u>
Public works:			
Public services	347,805	380,305	374,151
Cemetery	<u>74,815</u>	<u>74,815</u>	<u>85,452</u>
Total public works	<u>422,620</u>	<u>455,120</u>	<u>459,603</u>
Health:			
Assessor	122,840	122,840	119,719
Building inspector	<u>36,070</u>	<u>36,070</u>	<u>29,342</u>
Total health	<u>158,910</u>	<u>158,910</u>	<u>149,061</u>

Continued..

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual (Continued)
General Fund
Year Ended June 30, 2004

	Budgeted Amounts		Actual
	Original	Final	
Expenditures (Concluded):			
Culture and recreation - parks	\$ 103,675	\$ 134,675	\$ 133,193
Total expenditures	<u>3,352,305</u>	<u>3,476,805</u>	<u>3,280,231</u>
Revenues Over (Under) Expenditures	<u>923,845</u>	<u>793,345</u>	<u>992,490</u>
Other Financing Sources (Uses):			
Transfers in	22,000	22,000	22,000
Transfers out	<u>(945,845)</u>	<u>(1,267,845)</u>	<u>(1,062,900)</u>
Total other financing sources (uses)	<u>(923,845)</u>	<u>(1,245,845)</u>	<u>(1,040,900)</u>
Net Changes in Fund Balances	-	(452,500)	(48,410)
Fund Balances - Beginning of Year	<u>677,370</u>	<u>677,370</u>	<u>677,370</u>
Fund Balances - End of Year	<u>\$ 677,370</u>	<u>\$ 224,870</u>	<u>\$ 628,960</u>

Other Supplemental Information

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2004

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
<u>Assets</u>					
Cash and cash equivalents	\$ 352,100	\$ 5,723	\$ 128,070	\$ 91,475	\$ 577,368
Investments, at cost	-	-	-	453,254	453,254
Accounts receivable	58,585	-	2,223	-	60,808
Due from other governmental agencies	103,058	-	-	-	103,058
Prepaid expenditures	1,603	-	-	-	1,603
Total assets	<u>\$ 515,346</u>	<u>\$ 5,723</u>	<u>\$ 130,293</u>	<u>\$ 544,729</u>	<u>\$ 1,196,091</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 19,128	\$ -	\$ 1,110	\$ -	\$ 20,238
Accrued payroll and related liabilities	4,559	-	-	-	4,559
Due to other funds	7,796	-	63,075	-	70,871
Total liabilities	<u>31,483</u>	<u>-</u>	<u>64,185</u>	<u>-</u>	<u>95,668</u>
Fund Balances:					
Reserved for prepaid items	1,603	-	-	-	1,603
Reserved for perpetual care and endowment	-	-	-	544,729	544,729
Unreserved:					
Unreserved;Undesignated	482,260	5,723	66,108	-	554,091
Total fund balances	<u>483,863</u>	<u>5,723</u>	<u>66,108</u>	<u>544,729</u>	<u>1,100,423</u>
Total liabilities and fund balances	<u>\$ 515,346</u>	<u>\$ 5,723</u>	<u>\$ 130,293</u>	<u>\$ 544,729</u>	<u>\$ 1,196,091</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2004

	Special Revenue	Debt Service	Capital Project	Permanent Funds	Total
Revenues:					
Taxes	\$ 144,881	\$ -	\$ -	\$ -	\$ 144,881
Intergovernmental - federal and state	689,319	-	-	-	689,319
Charges for services	82,249	-	-	13,775	96,024
Fines and violations	54,692	-	-	-	54,692
Miscellaneous	<u>41,385</u>	<u>-</u>	<u>161,109</u>	<u>10,725</u>	<u>213,219</u>
Total revenues	<u>1,012,526</u>	<u>-</u>	<u>161,109</u>	<u>24,500</u>	<u>1,198,135</u>
Expenditures:					
Public safety	12,099	-	-	-	12,099
Highways and streets	637,235	-	-	-	637,235
Culture and recreation	354,229	-	-	-	354,229
Debt service:					
Principal payments	-	148,000	-	-	148,000
Interest and fiscal charges	-	27,131	-	-	27,131
Capital outlay	<u>-</u>	<u>-</u>	<u>121,105</u>	<u>-</u>	<u>121,105</u>
Total expenditures	<u>1,003,563</u>	<u>175,131</u>	<u>121,105</u>	<u>-</u>	<u>1,299,799</u>
Revenues Over (Under) Expenditures	<u>8,963</u>	<u>(175,131)</u>	<u>40,004</u>	<u>24,500</u>	<u>(101,664)</u>
Other Financing Sources (Uses):					
Operating transfers in	157,150	175,200	46,965	-	379,315
Operating transfers out	<u>(24,500)</u>	<u>-</u>	<u>(97,200)</u>	<u>(50,000)</u>	<u>(171,700)</u>
Total other financing sources (uses)	<u>132,650</u>	<u>175,200</u>	<u>(50,235)</u>	<u>(50,000)</u>	<u>207,615</u>
Changes in Fund Balances	141,613	69	(10,231)	(25,500)	105,951
Fund Balances - Beginning of Year	<u>342,250</u>	<u>5,654</u>	<u>76,339</u>	<u>570,229</u>	<u>994,472</u>
Fund Balances - End of Year	<u>\$ 483,863</u>	<u>\$ 5,723</u>	<u>\$ 66,108</u>	<u>\$ 544,729</u>	<u>\$ 1,100,423</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2004

	Library	Recreation Commission	Drug Forfeitures	Police Public Relations	Major Street	Local Street	Fire Equipment	Total
Revenues:								
Property taxes	\$ 144,881	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	144,881
Intergovernmental - federal and state	18,315	-	-	-	508,461	162,543	-	689,319
Charges for services	11,167	71,082	-	-	-	-	-	82,249
Fines and violations	54,692	-	-	-	-	-	-	54,692
Miscellaneous	19,752	1,574	84	11,918	3,656	3,218	1,183	41,385
Total revenues	<u>248,807</u>	<u>72,656</u>	<u>84</u>	<u>11,918</u>	<u>512,117</u>	<u>165,761</u>	<u>1,183</u>	<u>1,012,526</u>
Expenditures:								
Public safety	-	-	-	12,099	-	-	-	12,099
Highways and streets	-	-	-	-	386,478	250,757	-	637,235
Culture and recreation	229,944	124,285	-	-	-	-	-	354,229
Total expenditures	<u>229,944</u>	<u>124,285</u>	<u>-</u>	<u>12,099</u>	<u>386,478</u>	<u>250,757</u>	<u>-</u>	<u>1,003,563</u>
Revenues Over (Under) Expenditures	<u>18,863</u>	<u>(51,629)</u>	<u>84</u>	<u>(181)</u>	<u>125,639</u>	<u>(84,996)</u>	<u>1,183</u>	<u>8,963</u>
Other Financing Sources (Uses):								
Transfers in	-	50,000	-	-	-	107,150	-	157,150
Transfers out	(2,000)	-	-	-	(22,500)	-	-	(24,500)
Total other financing sources (uses)	<u>(2,000)</u>	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>(22,500)</u>	<u>107,150</u>	<u>-</u>	<u>132,650</u>
Changes in Fund Balances	<u>16,863</u>	<u>(1,629)</u>	<u>84</u>	<u>(181)</u>	<u>103,139</u>	<u>22,154</u>	<u>1,183</u>	<u>141,613</u>
Fund Balances - Beginning of Year	<u>197,036</u>	<u>2,181</u>	<u>20</u>	<u>6,406</u>	<u>99,677</u>	<u>36,081</u>	<u>849</u>	<u>342,250</u>
Fund Balances - End of Year	<u>\$ 213,899</u>	<u>\$ 552</u>	<u>\$ 104</u>	<u>\$ 6,225</u>	<u>\$ 202,816</u>	<u>\$ 58,235</u>	<u>\$ 2,032</u>	<u>\$ 483,863</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Debt Service Funds
June 30, 2004

		<u>Bond and Interest</u>
	<u>Assets</u>	
Cash and cash equivalents		\$ <u>5,723</u>
	<u>Fund Balance</u>	
Reserved for debt service		<u>5,723</u>
Total fund balances		\$ <u>5,723</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Debt Service Funds
Year ended June 30, 2004

	<u>Bond and Interest</u>
Revenues:	
Interest income	\$ -
Expenditures:	
Principal retirement	148,000
Interest and fiscal charges	<u>27,131</u>
Total expenditures	<u>175,131</u>
Revenues Under Expenditures	(175,131)
Other Financing Sources:	
Transfers in	<u>175,200</u>
Changes in Fund Balance	69
Fund Balance - Beginning of Year	<u>5,654</u>
Fund Balance - End of Year	<u>\$ 5,723</u>

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Capital Project Funds
June 30, 2004

	<u>Library</u>	<u>Airport</u>	<u>Three</u>	<u>Field of</u>	<u>Stock</u>	
	<u>Improvement</u>	<u>Improvement</u>	<u>Meadows</u>	<u>Dreams</u>	<u>Park</u>	<u>Total</u>
<u>Assets</u>						
Cash and cash equivalents	\$ 3,541	\$ 56,160	\$ 63,899	\$ -	\$ 4,470	\$ 128,070
Accounts receivable	-	2,223	-	-	-	2,223
Total assets	<u>\$ 3,541</u>	<u>\$ 58,383</u>	<u>\$ 63,899</u>	<u>\$ -</u>	<u>\$ 4,470</u>	<u>\$ 130,293</u>
<u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	\$ -	\$ 1,110	\$ -	\$ -	\$ -	\$ 1,110
Due to other funds	-	-	63,075	-	-	63,075
Total liabilities	<u>-</u>	<u>1,110</u>	<u>63,075</u>	<u>-</u>	<u>-</u>	<u>64,185</u>
Fund Balances:						
Unreserved;undesignated	<u>3,541</u>	<u>57,273</u>	<u>824</u>	<u>-</u>	<u>4,470</u>	<u>66,108</u>
Total fund balances	<u>3,541</u>	<u>57,273</u>	<u>824</u>	<u>-</u>	<u>4,470</u>	<u>66,108</u>
Total liabilities and fund balances	<u>\$ 3,541</u>	<u>\$ 58,383</u>	<u>\$ 63,899</u>	<u>\$ -</u>	<u>\$ 4,470</u>	<u>\$ 130,293</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Capital Project Funds
Year Ended June 30, 2004

	<u>Library Improvement</u>	<u>Airport Improvement</u>	<u>Three Meadows</u>	<u>Field of Dreams</u>	<u>Stock Park</u>	<u>Total</u>
Revenues:						
Miscellaneous	\$ 112,775	\$ 18,311	\$ 15,969	\$ 8,950	\$ 5,104	\$ 161,109
Expenditures:						
Capital outlay	42,120	6,044	62,929	9,378	634	121,105
Total expenditures	42,120	6,044	62,929	9,378	634	121,105
Revenues Over (Under) Expenditures	70,655	12,267	(46,960)	(428)	4,470	40,004
Other Financing Sources:						
Transfers in	-	-	46,965	-	-	46,965
Transfers out	(97,200)	-	-	-	-	97,200
Total other financing sources	(97,200)	-	46,965	-	-	50,235
Changes in Fund Balances	(26,545)	12,267	5	(428)	4,470	(10,231)
Fund Balances - Beginning of Year	30,086	45,006	819	428	-	76,339
Fund Balances - End of Year	\$ 3,541	\$ 57,273	\$ 824	\$ -	\$ 4,470	\$ 66,108

City of Hillsdale, Michigan
Combining Balance Sheet
Nonmajor Permanent Funds
June 30, 2004

	RI Owen Memorial	Cemetery Perpetual Care	Total
<u>Assets</u>			
Cash and cash equivalents	\$ 16,533	\$ 74,942	\$ 91,475
Investments, at cost	-	453,254	453,254
Inventory	-	-	-
Prepaid Expenses	-	-	-
Total assets	<u>\$ 16,533</u>	<u>\$ 528,196</u>	<u>\$ 544,729</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Due to other agencies	\$ -	\$ -	\$ -
Advance from general fund	-	-	-
Total liabilities	-	-	-
Fund Balances:			
Reserved for endowment principal	<u>16,533</u>	<u>528,196</u>	<u>544,729</u>
Total fund balances	<u>16,533</u>	<u>528,196</u>	<u>544,729</u>
 Total liabilities and fund balances	 <u>\$ 16,533</u>	 <u>\$ 528,196</u>	 <u>\$ 544,729</u>

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Permanent Funds
Year Ended June 30, 2004

	RI Owen Memorial	Cemetery Perpetual Care	Total
Revenues:			
Fees	\$ -	\$ 13,775	\$ 13,775
Investment income	<u>4,954</u>	<u>5,771</u>	<u>10,725</u>
Total revenues	<u>4,954</u>	<u>19,546</u>	<u>24,500</u>
Other Financing Uses:			
Operating transfers out	<u>(30,000)</u>	<u>(20,000)</u>	<u>(50,000)</u>
Changes in Fund Balances	(25,046)	(454)	(25,500)
Fund Balances - Beginning of Year	<u>41,579</u>	<u>528,650</u>	<u>570,229</u>
Fund Balances - End of Year	<u>\$ 16,533</u>	<u>\$ 528,196</u>	<u>\$ 544,729</u>

City of Hillsdale, Michigan
Dial-A-Ride Enterprise Fund
Comparative Statements of Revenues, Expenses,
and Changes in Retained Earnings
Years Ended June 30, 2004 and 2003

	07/01/2003 - 9/30/2003	10/01/2003 - 6/30/2004	Total	2003
Operating Revenues:				
Demand response (farebox)	\$ 7,759	\$ 38,061	\$ 45,820	\$ 45,871
Operating Expenses	<u>78,786</u>	<u>343,086</u>	<u>421,872</u>	<u>378,005</u>
Operating Loss	(71,027)	(305,025)	(376,052)	(332,134)
Nonoperating Revenues	<u>35,041</u>	<u>404,328</u>	<u>439,369</u>	<u>280,657</u>
Net Income (Loss)	<u>\$ (35,986)</u>	<u>\$ 99,303</u>	63,317	(51,477)
Net Assets - Beginning of Year			<u>137,404</u>	<u>188,881</u>
Net Assets - End of Year			<u>\$ 200,721</u>	<u>\$ 137,404</u>

City of Hillsdale, Michigan
Dial-A-Ride Enterprise Fund
Comparative Schedules of Operating Expenses
Years Ended June 30, 2004 and 2003

	<u>Operations</u>	<u>Maintenance</u>	<u>General</u>	<u>(1) 2004 Total System</u>	<u>(1) 2003 Total System</u>
Labor:					
Operator salaries and wages	\$ 186,115	\$ -	\$ -	\$ 186,115	\$ 178,597
Fringe Benefits	68,976	-	-	68,976	54,416
Services:					
Contractual	7,758	-	36,140	43,898	44,622
Telephone	-	-	1,476	1,476	1,123
Vehicle Maintenance	-	14,809	-	14,809	10,472
Materials and Supplies					
Consumed:					
Fuel and lubricants	14,221	-	-	14,221	14,633
Other materials and supplies	1,304	-	-	1,304	1,687
Casualty and Liability Costs:					
Premiums for public liability and property damage insurance	18,127	-	-	18,127	12,663
Miscellaneous Expenses:					
Other	1,215	-	-	1,215	534
Rentals	-	-	14,600	14,600	11,530
Depreciation	<u>57,131</u>	<u>-</u>	<u>-</u>	<u>57,131</u>	<u>47,728</u>
Total expenses	<u>\$ 354,847</u>	<u>\$ 14,809</u>	<u>\$ 52,216</u>	<u>\$ 421,872</u>	<u>\$ 378,005</u>

(1) All General Operations

City of Hillsdale, Michigan
Dial-A-Ride Enterprise Fund
Comparative Schedules of Non-Operating Revenues
For the Years Ended June 30, 2004 and 2003

	07/01/2003 - 9/30/2003	10/01/2003 - 6/30/2004	Total	2003
Non-Operating Revenues:				
Local - transfer from General Fund	\$ -	\$ 120,785	\$ 120,785	\$ 85,960
Other	-	3,329	3,329	3,333
Subtotal Local	-	124,114	124,114	89,293
State of Michigan Grants				
Formula assistance (Act 51) - FY 01 Closeout	-	(4,158)	(4,158)	15,297
Formula assistance (Act 51) - FY 02	(5,980)	(2,983)	(8,963)	33,265
Formula assistance (Act 51) - FY 03	34,858	-	34,858	104,571
Formula assistance (Act 51) - FY 04	-	128,673	128,673	-
Subtotal State of Michigan grants	28,878	121,532	150,410	153,133
Federal Grants:				
U.S.D.O.T. grant - Section 18/5311:				
Contract 1999-1012	-	-	-	2,563
Contract 2001-0036	-	3,183	3,183	-
Contract 2002-0044Z6	-	26,510	26,510	-
Contract 2002-0044Z1	-	-	-	6,561
Contract 2001-0044Z3	-	-	-	2,777
Contract 2002-0044Z4	5,810	3,345	9,155	25,702
RTAP Training	353	-	353	628
Subtotal U.S.D.O.T. grant - Section 18/5311	6,163	33,038	39,201	38,231
U.S.D.O.T. grant - Section 18/5304				
Contract 2002-004 (Bus)	-	81,697	81,697	-
Contract 2002-004 (Facility)	-	43,947	43,947	-
Subtotal U.S.D.O.T. grant - Section 18/5304	-	125,644	125,644	-
Subtotal Federal grants	6,163	158,682	164,845	38,231
Total non-operating revenues - local, state and federal	\$ 35,041	\$ 404,328	\$ 439,369	\$ 280,657

City of Hillsdale, Michigan
Dial-A-Ride Enterprise Fund
Net Eligible Costs Computations of General Operations
For the Year Ended June 30, 2004

	Federal Section 5311		State Operating Assistance	
	2002-0044Z4	2002-0044Z6		
	7/1/03 - 9/30/03	10/1/03 - 6/30/04	7/1/03 - 9/30/03	10/1/03 - 6/30/04
Expenses:				
Labor	\$ 37,431	\$ 148,684	\$ 37,431	\$ 148,684
Fringe benefits	16,421	52,555	16,421	52,555
Services	278	43,620	278	43,620
Utilities	244	1,232	244	1,232
Vehicle maintenance	3,809	11,000	3,809	11,000
Materials and supplies	1,985	13,540	1,985	13,540
Casualty and liability costs	-	18,127	-	18,127
Miscellaneous expense	435	780	435	780
Rental	3,900	10,700	3,900	10,700
Depreciation	<u>14,283</u>	<u>42,848</u>	<u>14,283</u>	<u>42,848</u>
Total expenses	<u>78,786</u>	<u>343,086</u>	<u>78,786</u>	<u>343,086</u>
Less Ineligible Expenses:				
Depreciation	<u>14,283</u>	<u>42,848</u>	<u>14,283</u>	<u>42,848</u>
Total ineligible expenses	<u>14,283</u>	<u>42,848</u>	<u>14,283</u>	<u>42,848</u>
Net eligible expenses	<u>64,503</u>	<u>300,238</u>	<u>64,503</u>	<u>300,238</u>
Maximum Section 5311 Reimbursement				
Progress payments (10.95%)	<u>\$ 9,155</u>	<u>\$ 26,510</u>		
	(1)	(2)		
Eligible for State Operating:				
For 7/01/03 to 9/30/03			<u>\$ 34,858</u>	
			(3)	
For 10/01/03 to 6/30/04 [2]				<u>\$ 128,673</u>
				(4)

- (1) Received \$34,857 in progress payments to 6-30-04. Subject to adjustment on closeout.
(2) Received \$26,510 in progress payments to 6-30-04. Subject to adjustment on closeout.
(3) Represents three monthly progress payments. Total payments for 10-1-01 to 9-30-02 are \$139,429.
(4) There have been \$128,673 in payments through 6/30/04.

City of Hillsdale, Michigan
Dial-A-Ride Enterprise Fund
Comparative Schedules of Mileage Data (Unaudited)
Years Ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Demand - Response:		
1st quarter	20,077	15,980
2nd quarter	20,891	20,367
3rd quarter	18,717	21,137
4th quarter	<u>15,260</u>	<u>19,224</u>
 Total operation	 <u>74,945</u>	 <u>76,708</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

No miles are logged for charter operations, nor school bus mileage.

City of Hillsdale, Michigan
Combining Statement of Net Assets
Internal Service Funds
June 30, 2004

	Department of				
	Public Service	Public	Revolving	Unemployment	
	Leave &	Service	Mobile	Insurance	
	Benefits	Inventory	Equipment		Total
Assets:					
Current assets:					
Cash and cash equivalents	\$ 17,182	\$ 33,459	\$ 257,321	\$ 52,829	\$ 360,791
Accounts receivable	-	-	362	-	362
Inventory	-	101,318	-	-	101,318
Prepaid expense	12,879	-	14,031	-	26,910
Total current assets	30,061	134,777	271,714	52,829	489,381
Capital assets:					
Equipment	-	-	1,395,127	-	1,395,127
Less: accumulated depreciation	-	-	(1,119,929)	-	(1,119,929)
Total capital assets, net	-	-	275,198	-	275,198
Total assets	30,061	134,777	546,912	52,829	764,579
Liabilities:					
Current liabilities:					
Accounts payable	-	3,547	14,863	-	18,410
Accrued payroll and related liabilities	-	-	564	-	564
Total current liabilities	-	3,547	15,427	-	18,974
Other liabilities:					
Compensated absences	30,061	-	12,411	-	42,472
Total liabilities	30,061	3,547	27,838	-	61,446
Net Assets:					
Invested in capital assets, net of related debt	-	-	275,198	-	275,198
Unrestricted	-	131,230	243,876	52,829	427,935
Total net assets	\$ -	\$ 131,230	\$ 519,074	\$ 52,829	\$ 703,133

City of Hillsdale, Michigan
Combining Statement of Revenues, Expenses
and Changes in Net Assets
Internal Service Funds
Year Ended June 30, 2004

	Department of				
	Public Service	Public	Revolving	Unemployment	
	Leave &	Service	Mobile	Insurance	Total
	Benefits	Inventory	Equipment		
Operating Revenues:					
Charges for services	\$ -	\$ 62,988	\$ 307,826	\$ -	\$ 370,814
Other revenue	132,349	-	23,781	6,070	162,200
Total operating revenues	132,349	62,988	331,607	6,070	533,014
Operating Expenses:					
Salaries	38,430	2,796	57,967	-	99,193
Fringe benefits	93,919	205	28,487	-	122,611
Supplies	-	12,386	7,049	-	19,435
Services	-	28,895	28,805	-	57,700
Maintenance	-	-	88,901	-	88,901
Insurance	-	-	18,063	-	18,063
Miscellaneous	-	37	11,172	31,455	42,664
Capital outlay	-	-	(1)	-	(1)
Depreciation	-	-	100,171	-	100,171
Total operating expenses	132,349	44,319	340,614	31,455	548,737
Changes in Net Assets	-	18,669	(9,007)	(25,385)	(15,723)
Net Assets - Beginning of Year	-	112,561	528,081	78,214	718,856
Net Assets - End of Year	\$ -	\$ 131,230	\$ 519,074	\$ 52,829	\$ 703,133

City of Hillsdale, Michigan
Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2004

	Department of Public Service Leave & Benefits	Public Service Inventory	Revolving Mobile Equipment	Unemployment Insurance	Total
Cash Flows From Operating Activities:					
Cash paid to employees and suppliers	\$ (141,403)	\$ (104,678)	\$ (242,325)	\$ (31,455)	\$ (519,861)
Receipts for interfund services provided	132,349	62,988	331,245	6,070	532,652
Net cash provided by (used in) operating activities	(9,054)	(41,690)	88,920	(25,385)	12,791
Cash Flows From Capital and Related Financing Activities:					
Purchase of capital assets	-	-	(93,811)	-	(93,811)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,054)	(41,690)	(4,891)	(25,385)	(81,020)
Cash and Cash Equivalents - Beginning of Year	26,236	75,149	262,212	78,214	441,811
Cash and Cash Equivalents - End of Year	\$ 17,182	\$ 33,459	\$ 257,321	\$ 52,829	\$ 360,791
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	\$ -	\$ 18,669	\$ (9,007)	\$ (25,385)	\$ (15,723)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	-	-	100,171	-	100,171
Changes in:					
Accounts receivable	-	-	(362)	-	(362)
Inventory	-	(55,241)	-	-	(55,241)
Prepaid expenses	(10,263)	-	(13,749)	-	(24,012)
Accounts payable	-	(5,118)	11,822	-	6,704
Accrued expenses	1,209	-	45	-	1,254
Net Cash Provided by (Used in) Operating Activities	\$ (9,054)	\$ (41,690)	\$ 88,920	\$ (25,385)	\$ 12,791

City of Hillsdale, Michigan
Tax Increment Finance Authority Component Unit
Comparative Balance Sheets
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets:		
Cash and cash equivalents	\$ 30,398	\$ 268,318
Due from other governmental units	<u>-</u>	<u>25,964</u>
Total assets	<u>\$ 30,398</u>	<u>\$ 294,282</u>
Fund Balances:		
Unreserved:undesignated	<u>\$ 30,398</u>	<u>\$ 294,282</u>

City of Hillsdale, Michigan
Statement of Revenues, Expenditures and Changes
in Fund Balances - Budget to Actual
Tax Increment Finance Authority Component Unit
Year Ended June 30, 2004
(With Comparative Amounts for the Year Ended June 30, 2003)

	<u>2004</u>		<u>Variance -</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Favorable</u>	<u>2003</u>
			<u>(Unfavorable)</u>	
Revenues:				
Local sources:				
Property tax	\$ 82,000	\$ 84,422	\$ 2,422	\$ 83,664
Earnings on investments	4,500	1,458	(3,042)	3,396
Total revenues	86,500	85,880	(620)	87,060
Expenditures:				
Capital outlay	300,200	300,390	(190)	35,550
Revenues Over (Under) Expenditures	(213,700)	(214,510)	(810)	51,510
Other Financing Sources (Uses):				
Operating transfers out	(75,000)	(49,374)	25,626	-
Total other financing sources (uses)	(75,000)	(49,374)	25,626	-
Net Changes in Fund Balance	(288,700)	(263,884)	24,816	51,510
Fund Balances - Beginning of Year	294,282	294,282	-	242,772
Fund Balances - End of Year	\$ 5,582	\$ 30,398	\$ 24,816	\$ 294,282

City of Hillsdale, Michigan
Economic Development Corporation Component Unit
Comparative Balance Sheets
June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Assets:		
Cash and cash equivalents	\$ 36,170	\$ 35,908
Net Assets	<u>\$ 36,170</u>	<u>\$ 35,908</u>

City of Hillsdale, Michigan
Statement of Revenues,
Expenses and Changes
in Retained Earnings - Budget to Actual
Economic Development Corporation Component Unit
Year Ended June 30, 2004

	<u>2004</u>		<u>Variance - Favorable (Unfavorable)</u>	<u>2003</u>
	<u>Budget</u>	<u>Actual</u>		
Nonoperating Revenues:				
Earnings on investments	\$ 500	\$ 262	\$ (238)	\$ 447
Nonoperating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Income	500	262	(238)	447
Retained Earnings - Beginning of Year	<u>35,908</u>	<u>35,908</u>	<u>-</u>	<u>35,461</u>
Retained Earnings - End of Year	<u>\$ 36,408</u>	<u>\$ 36,170</u>	<u>\$ (238)</u>	<u>\$ 35,908</u>

August 31, 2004

Members of City Council
City of Hillsdale
Hillsdale, Michigan

We have audited the financial statements of the City of Hillsdale for the year ended June 30, 2004, and have issued our report thereon dated August 31, 20004.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the City. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by the City during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the allowance for doubtful accounts with the Enterprise Funds.

Management's estimate of the allowance for doubtful accounts is based on historical revenues, historical loss levels, and an analysis of the collectibility of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). There were no significant audit adjustments recorded at year-end.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Members of the City Council
City of Hillsdale
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Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the City Council and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Willis & Jurasek, P.C.

Willis & Jurasek, P.C.

Comments and Recommendations

Fixed Assets

We recommend you set up a separate mechanism for monitoring fixed assets during the year. Your current software package may handle this. At a minimum the schedule you keep should set up a summary page showing beginning of the year assets, then any additions and deletions. Accumulated depreciation should be set up in a similar manner. This would allow for easy monitoring of fixed assets during the year and at year end.

Comprehensive Annual Report and Certificate of Achievement for Excellence in Financial Reporting

We would recommend the City consider revamping the financial statement reporting for the audit report and try to receive the Certificate of Achievement for Excellence in Financial Reporting issued by the Government Finance Officers Association. This would require a little more reporting in some areas; specifically a statistical section would be added to the end of the report. Most of the information needed you would already have. We can provide guidance in meeting the requirements for this reporting.